

**Recommendation: Buy**  
**Target Price: C\$4.10**

## NexGen Energy Ltd. (NXE-TSX)

### Relaunching On Tier-1 Uranium Developer

Current Price	C\$2.47	Shares Outstanding (MM)	
52 Wk High	C\$2.62	Basic	376.5
52 Wk Low	C\$0.76	Diluted	414.4
Cash (MM)	C\$76	Mngt. & Dir.	30.1
Total Debt (MM)	C\$159	Market Cap.	C\$929.9
NAVPS	C\$4.08	EV	\$774.8
Price/NAVPS	0.61x		
EV/Lb (Reserve)	\$3.31	Reserve	234.1 MMLb
EV/Lb (Resource)	\$2.22	Resource	348.3 MMLb

Unless otherwise denoted, all figures shown in US\$

#### Investment Thesis:

NexGen should be a core holding for uranium investors due to its ownership of the Arrow project – one of, if not the, best undeveloped uranium projects globally. Once in production, Arrow would be the world's largest uranium mine and one of the lowest cost due to its high grades and amenability to conventional mining methods. We estimate production by 2026, and note the potential for a takeout due to the asset's Tier 1 status and strategic value.

#### Highlights:

- **Advancing the Tier 1 Arrow Project:** NexGen is expected to release an Arrow feasibility study by YE-2020, followed by Impact Benefit Agreements in H1/21 and filing of the EIS in mid-2021. This will trigger a ~24-month permitting timeline, which we expect to lead to a construction decision by 2023 and production by 2026. We believe Arrow is one of, if not the, best uranium projects in the world. In production, it would be the world's largest uranium mine and would be producing at industry-low costs (all-in cost of just \$13/lb).
- **Fully-Funded for Near-Term Development:** With C\$76 MM in cash, NexGen is well funded for near-term development and permitting work.
- **Relaunching Coverage Following Analyst Departure:** We are re-instating coverage with a C\$4.10 target and a Buy rating, based on 1.0x our NAV.

#### Company Description:

NexGen is focused on advancing the 100%-owned Arrow project, arguably the best undeveloped uranium deposit in the world due its Tier 1 scale, low-cost, and location in the Athabasca Basin.

### **Arrow – World’s Largest, Low-Cost Uranium Project**

*Arrow is NexGen’s 100%-owned uranium project located in the southwestern Athabasca Basin of Saskatchewan. We believe it is one of the best (if not the best) undeveloped uranium projects in the world. In production, it would be the world’s largest uranium mine and would be producing at industry-low costs.*

**Tier 1 Scale:** Once in production, Arrow would be the largest uranium mine in the world producing an average 25.4 MMlbs per year (~14% of global production). With total resources of 348 MMlbs at 2.04% U3O8, Arrow is also one of the world’s largest undeveloped deposits (especially at higher-grade). The resource is underpinned by a high-grade core of 182 MMlbs at 17.8% U3O8. See Figures 1-3.

**Tier 1 Costs:** Arrow’s all-in-cost (including initial capex) is just \$13/lb, while the AISC in production is estimated to be just \$9/lb (profitable at even today’s U3O8 prices). Even at spot U3O8 prices, we estimate a ~30% IRR (57% at \$50/lb per the PFS). See Figure 4.

**Tier 1 Jurisdiction:** Arrow is located in the Athabasca Basin of Saskatchewan, arguably the best location in the world for a uranium mine. While the southwestern part of the basin is not as infrastructure rich as the east, NexGen is permitting the construction of a standalone mill and holds a dominant land position in the area which we discuss further below. See Figure 5.

**Conventional Mine & Mill:** Relative to other uranium projects, Arrow has lower technical risk. A large driver of the low costs is the ability to mine Arrow using conventional long-hole stoping techniques, with no need for a freeze-wall. This is made possible by the fact that the orebody is hosted within the competent basement rock (not sandstone as with other deposits in the basin, which require freezing to improve ground conditions and prevent water inflow).

**Upside to Reserve Life:** The PFS outlines a 9-year mine life based on the 234 MMlbs U3O8 of reserves, within a total resource of 348 MMlbs. We believe the mine life will ultimately be longer as some resources are converted into reserves, and as drilling expands the orebody which remains open. See Figure 6. We model only one additional year of mine life in our NAV.

**Permitting:** Since being suspended due to COVID-19, Environmental Assessment work has recently restarted and NexGen anticipates filings its Environmental Impact Statement (“EIS”) by mid-2021, starting a timeline to a permitting decision that typically lasts ~24 months. The company is also currently negotiating the Impact Benefit Agreements for the local communities which it expects to finalize before submission of the EIS. We don’t consider the project to have high permitting risk, and note that the underground tailings are a key factor in reducing the surface footprint and mitigating the environmental impact/risk. We model a positive construction decision in 2023.

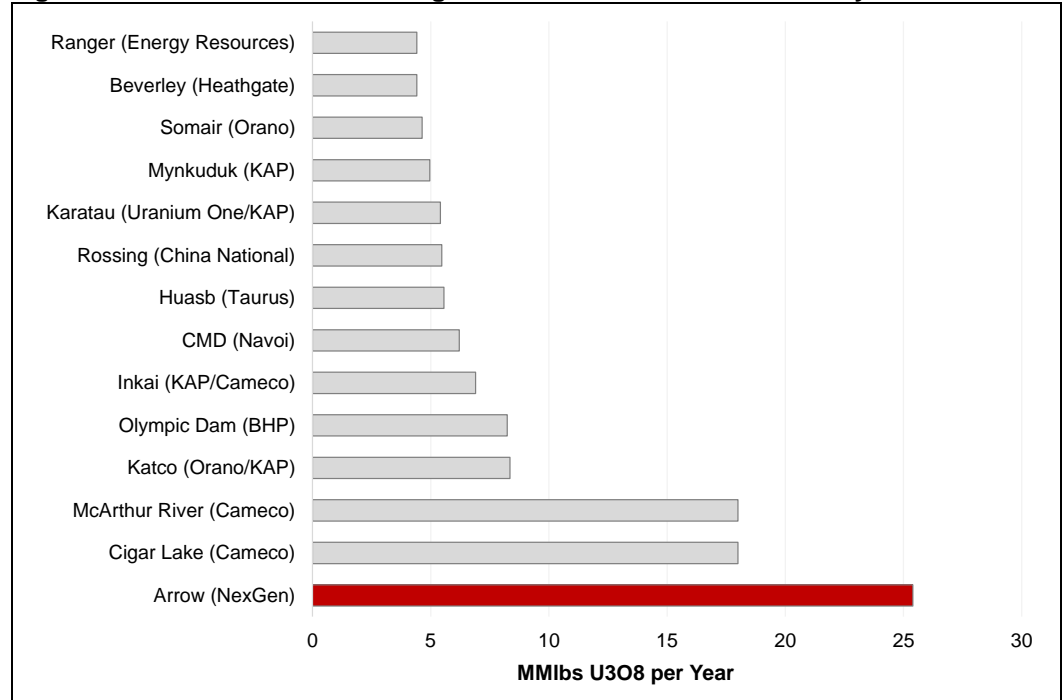
**Feasibility Study by YE-2020:** We expect the feasibility study to be similar to the 2018 PFS, but with an upgrade in confidence due to tighter drill spacing (a higher proportion of measured vs. indicated resources).

**Regional Exploration:** NexGen holds the largest land package in the southwestern Athabasca Basin, 259,000 Ha. Rook I itself includes 5 uranium discoveries across a 7 km strike including Arrow, South Arrow, Harpoon, Bow, and Cannon. Besides Arrow, Harpoon is the most significant with the discovery hole intersecting 17.5 m @ 3.89 % U3O8 (including 2.5 m @ 12.49% U3O8). Further, Rook I lies within ~14 km of strike which includes Spitfire (Purepoint Uranium) to the NE and Triple R (Fission Uranium) to the SW.

**Largest Shareholder of IsoEnergy (High-Grade U3O8 Discovery):** NexGen is the largest shareholder (~52%) of IsoEnergy (ISO.V), which holds a number of exploration-stage projects in the Athabasca Basin. Most notably, ISO is drilling on the Hurricane Zone within its Larocque East property where it has made a high-grade uranium discovery. The 9,400 m (24 hole) Winter 2020 program included intercepts such as

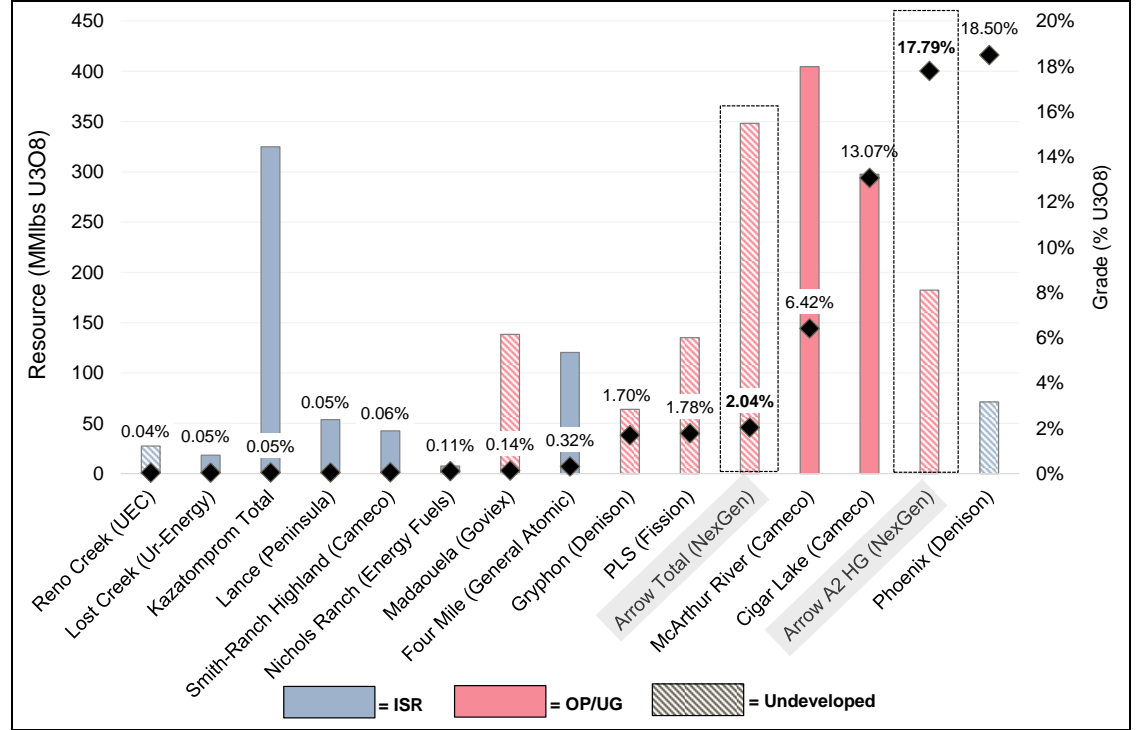
8.5 m @ 33.9% U3O8, 10.5 m @ 11.7%, and 8.5 m @ 19.6%. ISO is following up drilling in this zone with an 8,000 m summer program. The zone is relatively shallow (330 m below surface), 40 km from the McClean Lake mill, and is unconformity hosted within the Athabasca sandstone.

**Figure 1: Arrow Would be the Largest Uranium Mine in the World by Production**



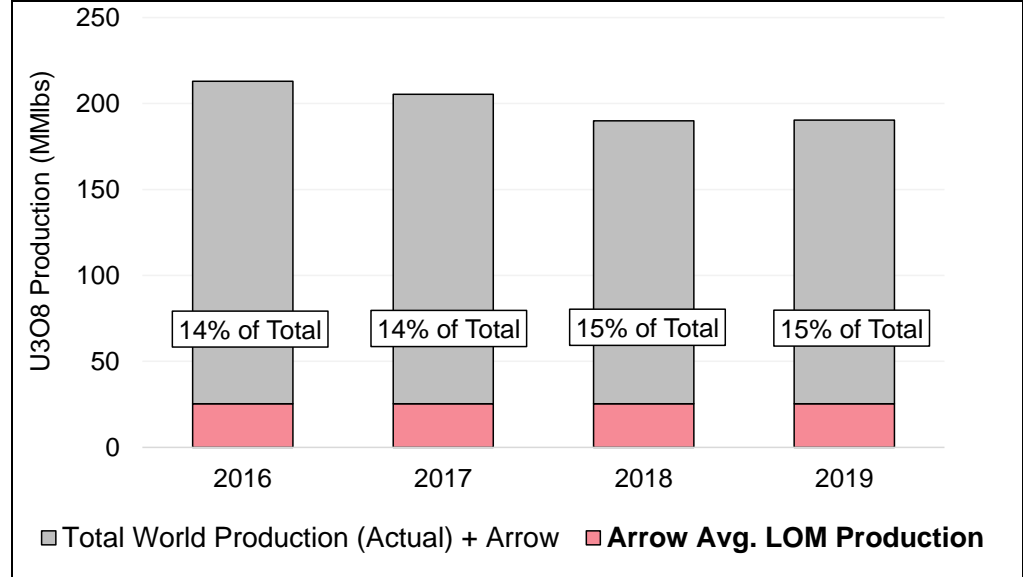
*Note: 2016 production for McArthur River, avg. LOM production for Arrow, 2018 production for all others.  
 Source: Company Reports, S&P Global, Cormark Securities*

**Figure 2: Large, Conventional, High-Grade Deposit**



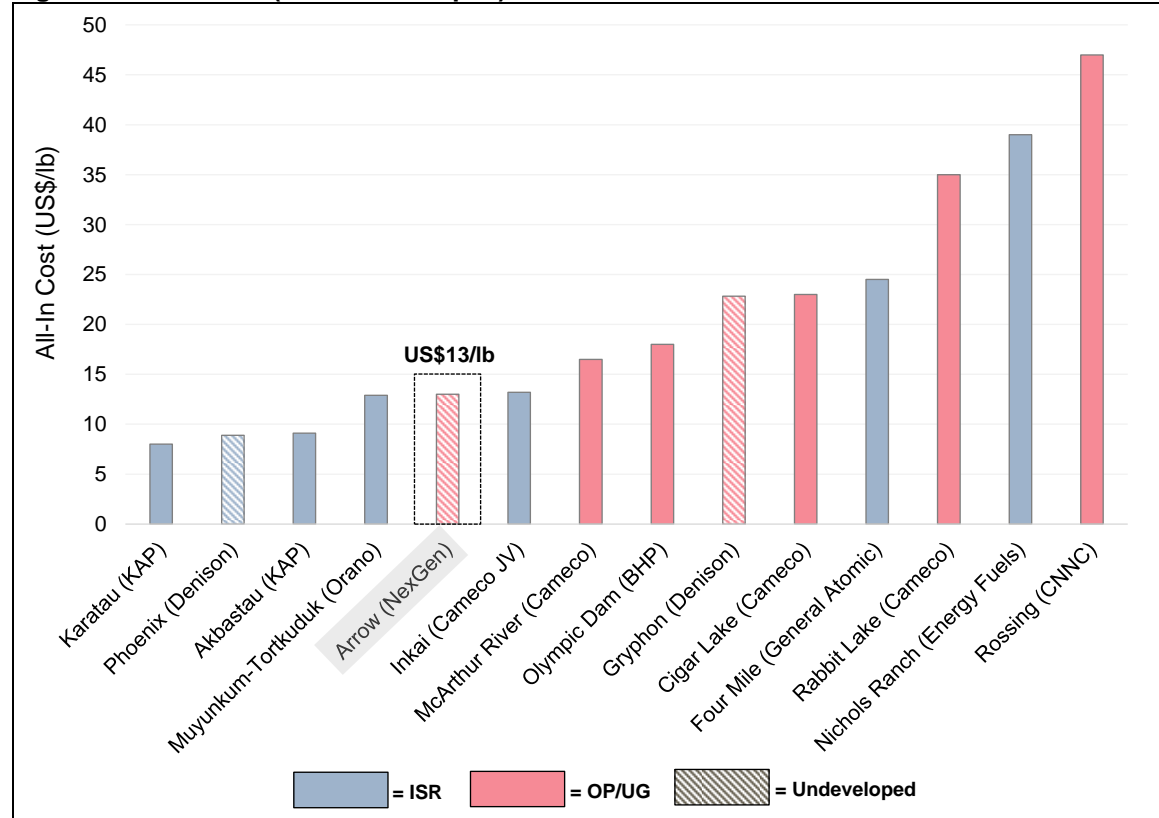
Source: Company Reports, S&P Global, Cormark Securities

**Figure 3: Arrow Would be ~14% of Global Production (Incl. McArthur River)**



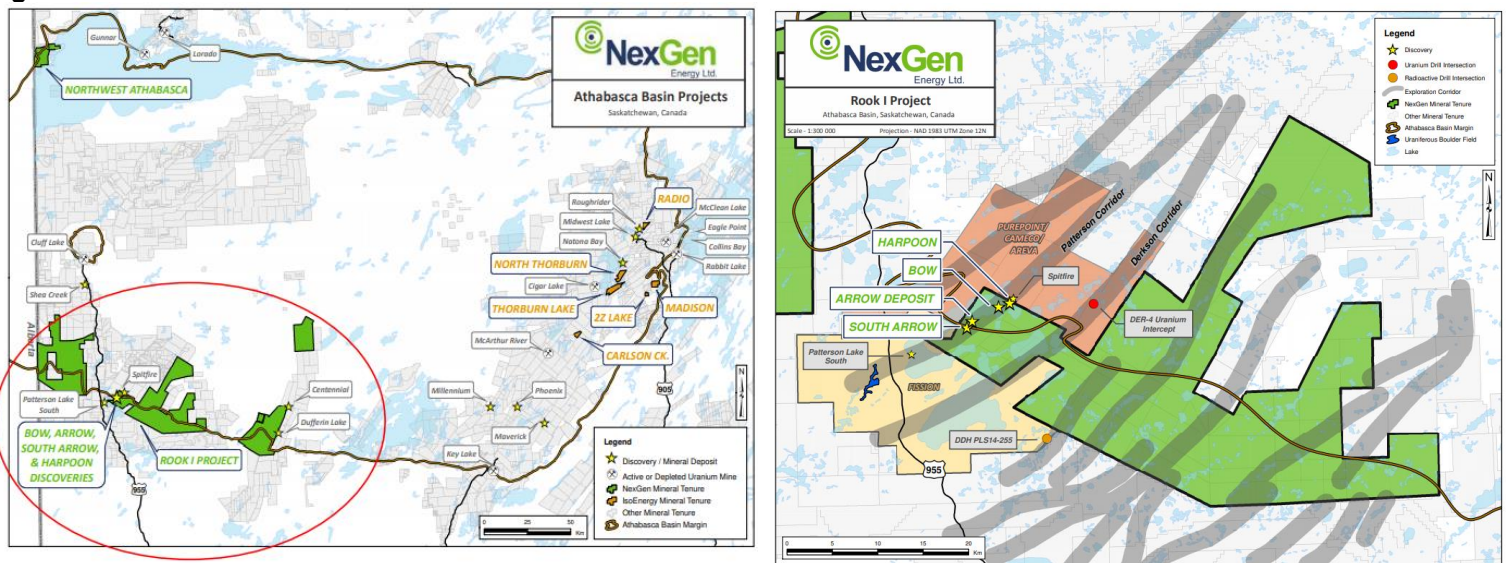
Source: Company Reports, S&P Global, Cormark Securities

**Figure 4: All-In Cost (incl. Initial Capex) of Just \$13/lb – One of the World's Lowest**



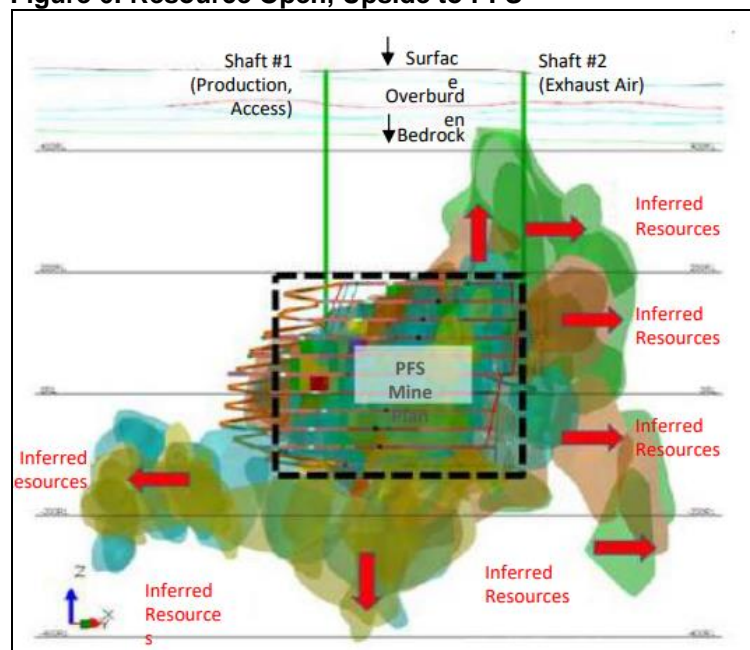
Note: 2016 production for McArthur River, 2018 production for all others.  
 Source: Company Reports, UxC, Cormark Securities

**Figure 5: NexGen Assets Location – Dominant Position in the SW Athabasca Basin**



Source: Company Reports

**Figure 6: Resource Open, Upside to PFS**



Source: Company Reports

**Updating Our NexGen Model and Resuming Coverage:**

**Arrow Model and NAV:** Our model largely twins the 2019 PFS mine plan, with the only exception that we add one additional year of mine life (+18.9 MMLbs). This equates to a 15% conversion of the resources excluding reserves. We assume that a construction decision is made in 2023, in time for first production by 2026. Generally speaking, this assumes an EIS submission by mid-2021 and a 24-month timeline to a permitting decision. We also assume an additional C\$200 MM in pre-production costs related to permitting, infill drilling, G&A, CSR, etc. We assume \$40/lb U3O8 from 2025-2029 and \$50/lb by 2030. These longer-term prices are based on what we consider to be the minimum incentive price required for curtailed and new production to come online. Arrow accounts for 78% of our corporate NAV (97% of mining asset NAV).

**IsoEnergy & Secondary Assets:** We assign a C\$10 MM value to the Athabasca Basin exploration assets (approx. book value as of Q2/20) plus the equity value of NexGen's ~52% interest in IsoEnergy. We assign no value to Arrow resources outside of our mine plan (100 MMLbs).

**Balance Sheet and Funding Requirements:** NexGen ended Q2/20 with C\$76 MM in cash, C\$73 MM in working capital, and C\$159 MM in convertible debentures and LT leases (US\$135 MM principal). The convertible debentures include \$60 MM due July 2022 (C\$2.33/sh exercise), \$60 MM due July 2022 (C\$2.69/sh exercise), and \$15 MM due May 2025 (convertible at C\$2.34/sh). NexGen's cash burn in 2018 and 2019 was ~C\$55 MM and ~C\$79 MM, respectively, and ~C\$20 MM in H1/20. We assume a total cash burn of ~C\$200 MM through a construction decision (2023). Overall, we assume future equity funding requirements of C\$480 MM (including initial capex) based on 35% equity financing overall at \$2.50/sh. In our view, these assumptions are likely to prove conservative. See Figures 7 and 9.

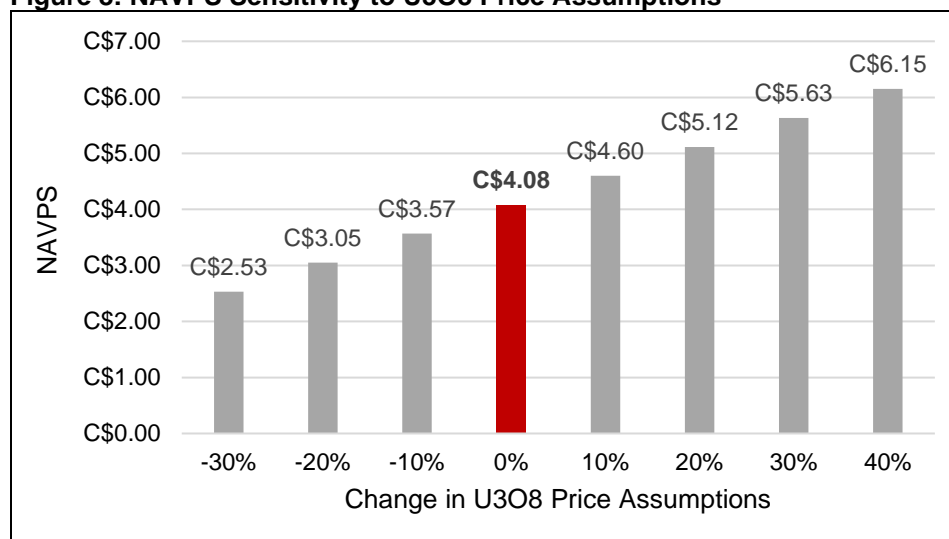
**Resuming Coverage with Buy Rating and \$4.10 Target Price:** Following an analyst departure, we are resuming coverage on NexGen with a \$4.10 target price, based on 1.0x our NAV calculated on the assumptions described above.

**Figure 7: NXE Net Asset Value Overview**

NAV	C\$ MM	C\$/share
Arrow NPV10%	\$1,928	\$3.18
IsoEnergy Shares	\$59	\$0.10
Other Athabasca Basin Properties	\$10	\$0.02
Cash	\$76	\$0.13
Non-Cash Working Capital	(\$3)	(\$0.00)
LT Debt and Leases	(\$159)	(\$0.26)
Cash from ITM Options/Warrants	\$84	\$0.14
Future Equity Issuance Proceeds	\$480	\$0.79
<b>Total</b>	<b>\$2,475</b>	<b>\$4.08</b>
Basic Shares Outstanding		376.5
ITM Options/Warrants at Target		38.0
Future Share Issuances		192.0
<b>Fully Diluted Shares</b>		<b>606.4</b>
Current price		\$2.47
<b>P/NAV</b>		<b>0.61x</b>

Source: Company Reports, Cormark Securities

**Figure 8: NAVPS Sensitivity to U3O8 Price Assumptions**



Source: Cormark Securities

**Figure 9: NAVPS Sensitivity to Financing Assumptions**

Financing Price	Equity Component (%)		
	25%	35%	45%
\$1.75/sh	C\$3.83	C\$3.60	C\$3.41
\$2.00/sh	C\$3.99	C\$3.78	C\$3.62
\$2.25/sh	C\$4.13	C\$3.95	C\$3.80
\$2.50/sh	C\$4.24	<b>C\$4.08</b>	C\$3.95
\$2.75/sh	C\$4.34	C\$4.20	C\$4.09
\$3.00/sh	C\$4.42	C\$4.31	C\$4.21
\$3.25/sh	C\$4.50	C\$4.41	C\$4.32
\$3.50/sh	C\$4.57	C\$4.49	C\$4.42
\$3.75/sh	C\$4.62	C\$4.57	C\$4.51

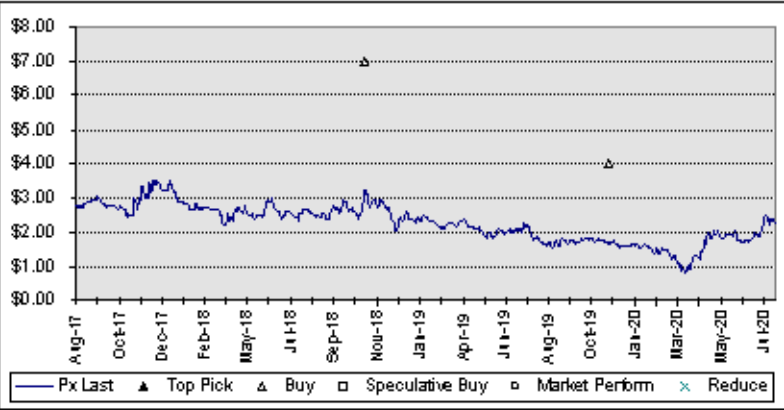
Source: Cormark Securities

**NexGen Energy Ltd.**

Updated September 01, 2020

**Price Chart and Disclosure Statement**

\*Information updated monthly on or about the 5th of each month.



Recommendation / Target Chg	Date	C\$
	23-Mar-20	4.00 (U.R.)
	21-Nov-19	4.00 (B)
	06-Nov-18	7.00 (B)

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